CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 20, 1997

A bill to authorize a demonstration project for Medicare reimbursement for certain health care services provided to Medicare-eligible veterans, and for other purposes

As ordered reported by the Senate Committee on Veterans' Affairs on October 7, 1997

SUMMARY

The bill would establish a demonstration project for Medicare reimbursement to the Department of Veterans Affairs (VA) for care that VA provides to certain veterans eligible for Medicare, a program sometimes called Medicare subvention. Although the bill would probably raise Medicare's costs, CBO cannot estimate the amount of the increase. Any increase in Medicare's outlays would represent an additional source of funds for VA; thus, the needed authorization of appropriations for veterans' medical care would decline by the same amount. Because it would raise direct spending, the bill would be subject to pay-as-you-go procedures under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985. The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 and would not have a significant impact on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The bill would establish a demonstration project in which Medicare would reimburse VA for the care that VA provides to certain veterans who are also eligible for Medicare. The demonstration project would have the following characteristics:

- The project would be conducted during the three-year period starting January 1, 1998, at up to 12 VA medical centers in dispersed locations where there would be a high demand for the program.

- Medicare would reimburse VA at 95 percent of the rate payable to private providers (less certain payments for disproportionate share, medical education, and capital) for Medicare-covered services furnished to certain veterans. Those veterans would have to be eligible for Medicare, participate in Medicare Part B, and have no service-connected disability. Such veterans currently receive care from VA if resources are available and if the veteran pays a share of the costs. Participants in the demonstration would be subject to Medicare's cost-sharing requirements.

- Although Medicare would reimburse VA primarily on a fee-for-service basis, VA could establish and operate managed health care plans as part of the demonstration.

- VA would be responsible for maintaining a basic level of effort to be eligible for reimbursement by Medicare. The required level of effort would be based on an estimate of the amount of Medicare-covered services provided by VA to targeted veterans in 1997.

- VA and the Department of Health and Human Services (HHS), in consultation with the General Accounting Office, would monitor Medicare's expenditures in an attempt to ensure that it spent no more than it would have spent without the demonstration.

- Medicare's payments under the demonstration would be limited to $50 million a year.

One of the legislative goals is that the demonstration project not increase either VA's or Medicare's costs. In theory, VA would continue to pay for the care that it would provide under current law to beneficiaries eligible for Medicare, and Medicare would continue to pay for people currently receiving care in the private sector. Medicare's costs would experience no net change because lower payments to private-sector providers would offset payments to VA. VA's net costs would remain the same because the receipts from Medicare would be matched by higher outlays for the care it would provide to extra patients. In practice, however, Medicare's cost would probably increase, but CBO cannot estimate the amount.

Assuring budget neutrality for Medicare would be difficult to achieve for two reasons. First, available data do not allow an accurate determination of the portion of VA's current workload that is attributable to providing Medicare-covered services to targeted veterans. Second, VA could shift future costs to Medicare while nominally meeting its maintenance-of-effort requirements.

Medicare's costs would rise if VA's basic level of effort is underestimated, and that level cannot be measured very well. Establishing a base level for 1997 requires knowing the number of targeted veterans who seek care from VA, the extent of that care, and the costs of providing it. This information is not available for individual VA facilities or in the aggregate and must be estimated based on accounting and survey data.

Even if VA's current level of effort could be estimated accurately, it would not be possible to determine if VA was actually maintaining that level of effort in future years. The nature of the demonstration would encourage VA to serve targeted veterans at facilities where Medicare would provide reimbursement. As a result, spending on medical care for targeted veterans would rise at VA facilities participating in the demonstration, and VA's spending on medical care for targeted veterans at nonparticipating facilities would fall. VA could appear to meet or exceed its maintenance-of-effort requirement while actually falling short of the target.

Under these circumstances, differences in the access to information and funding make it likely that some of VA's spending would be shifted to Medicare. Because annual discretionary appropriations limit VA's health care funding, the department would have to reduce the size of its program if it overestimated its required level of effort or underestimated its actual effort in the future. Medicare's costs, however, are paid from a permanent, indefinite appropriation that would not readily reveal a loss stemming from a demonstration program such as this one. It would not be easy for the General Accounting Office or any other auditing agency to determine the financial outcome of the demonstration. It, too, would have to rely on estimates and assumptions about events and behavior that would have been different under current law.

PAY-AS-YOU-GO CONSIDERATIONS

Enactment of the bill would probably increase direct spending during the 1998-2001 period, but CBO cannot estimate the amount of the increase.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 and would not affect the budgets of state, local, or tribal governments.

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